

Affordable Housing Trust Funds

Many policy leaders are increasingly aware of the limited availability of affordable housing for lower-income residents, and the critical need to find ways to increase the supply of low-cost housing. Affordable housing trust funds are public sector tools used to direct financial resources to the development of affordable housing for low-income households. Nearly 150 affordable housing trust funds are in operation around the nation, including 37 state-administered funds. This brief provides background information on the use of affordable housing trust funds, examining several existing state-administered affordable housing funds and providing details on how they are funded and administered.

The Continuing Crisis

Despite an historic period of economic vitality, poverty and its related hardships continue to confront large numbers of families across the United States. In 1999, at a time when poverty rates had reached a 20-year low, more than 32 million Americans (11.8 percent)

remained below the official poverty line. Single-parent families and households with children tend to be disproportionately affected by poverty. Families with low and moderate incomes often find it especially difficult to obtain affordable housing, and housing problems frequently contribute to further family crises.

Given the changing federal role in assisted housing—including the conversion of assisted units to market rates as use restrictions expire and the demolition of aging public housing units—the availability of subsidized low-income housing has decreased in recent years. At the same time, market pressures associated with the strong economy have contributed to ever-rising housing costs. To address the decline in the availability of affordable low-cost housing, communities increasingly rely on nonprofit housing development organizations, but such groups have historically been unable to develop sufficient numbers of

additional affordable units to resolve the crisis.¹

With a limited supply of affordable housing units, many households must spend a greater share of their income on housing. The U.S. Department of Housing and Urban Development (HUD) considers a housing unit “affordable” if it costs no more than 30 percent off household income. The Joint Center for Housing Studies of Harvard University reports that more than two-thirds of “working poor” households—those working for minimum wage—spend 30 percent or more of their incomes for housing, and one-fourth spend more than 50 percent.

Affordable Housing Trust Funds

As communities search for resources to create the needed supply of affordable housing, many have established housing

¹ Michigan State University Center for Urban Affairs. 2001. *Organizational Capacity and Housing Production: A Study of Nonprofit Organizations in Michigan*. East Lansing: Michigan State University.

trust funds to provide affordable capital for the construction and rehabilitation of low-cost housing. In addition to 39 counties and 34 cities around the nation, 37 states have established government-administered affordable housing trust funds.² Although housing advocates support establishing a national housing trust fund,³ such a proposal has not met with support in Congress.

The purpose of an affordable housing trust fund is to establish a dedicated source of revenue to provide ongoing funding for low-income housing programs that would not otherwise receive funding.

A typical housing trust fund:

Taps a continuous, dedicated source of revenue. Ideally, housing trust funds are characterized by a permanent source of revenue rather than being funded by annual appropriations. Dedicated revenues are often derived from taxes, fees, or interest on pooled accounts; this revenue is held separately and can only be used for the purposes set forth when the fund was established.

Is administered by a government agency. Housing trust funds are typically administered by an existing housing agency of the sponsoring state or local government. In the case of state-administered funds, this is commonly the state housing finance agency.

Awards low-interest loans, grants or other forms of financial assistance to provide affordable housing. Typically, funds supply financial assistance to housing developers, local units of government, housing authorities, or other service providers to address the needs of low- and very low income households.

Finances a variety of housing activities. Funds are usually designated to support new construction, rehabilitation, rental assistance, home purchase assistance, project-based subsidies, and other housing-related services specifically targeted to meet the needs of low-income households.⁴

Revenue Sources

The central feature of a housing trust fund is its source of revenue. At least 16 different revenue sources are used to finance the existing state housing trust funds. The size of revenue streams tapped by the 37 state housing trust funds

ranges from \$300,000 to \$122 million per year.⁵

One significant revenue source is the real estate transfer tax. Twelve of the 37 state housing trust funds use such a tax, and most funds that receive more than \$10 million a year collect revenue from a real estate transfer tax as one of their sources of income. Another common source of revenue is capturing the interest accumulated on pooled accounts associated with real estate transactions. Other revenue sources for affordable housing trust funds include penalties on failure to pay or late payments of real estate excise taxes, or fees on a variety of other real estate related transactions. In practice, several revenue streams may be combined to generate acceptable levels of funding; in some states, dedicated revenue streams are supplemented by general fund appropriations by the legislature.

Methods of Administration

The second defining feature of a housing trust fund is its method of administration. Of the 37 existing state housing funds, 18 are administered by state housing finance agencies or their equivalents. Different agencies of the state, such as the departments or divisions of housing and community development or community affairs, commerce, economic

² Brooks, M. 1997. *A status Report on Housing Trust Funds in the United States*.

[<http://www.communitychange.org>]

³ See, e.g., the National Housing Trust Fund Campaign [accessible online at www.nhtf.org].

⁴ Brooks, op. cit

⁵ Ibid.

Profiles of Selected State Housing Trust Funds

State	Year established	Estimated annual revenues	Revenue source(s)	Uses of funds	For further information:
Arizona	1988	\$ 6 million	Percentage of unclaimed property fund	New construction/ acquisition and/or rehab of housing for ownership or rental, transitional, or emergency shelter	http://www.commerce.state.az.us/housing/ahtf1.shtml
Illinois	1989	\$ 20 - \$22 million	Portion of real estate transfer tax	New construction, acquisition/rehab, adaptive reuse of nonresidential buildings, special-needs housing	http://www.ihda.org/cd.htm
Minnesota	1989	\$ 2 million	Interest on pooled real estate deposits; interest on fees; appropriations	New construction; acquisition, preservation, and rehab for renters and owners	http://www.mhfa.state.mn.us/
Missouri	1994	\$ 4 million	Real estate document recording fee	Rental housing production, rental subsidies, services for the homeless	http://www.mhdc.com/programs/mhtf.html
Nebraska	1996	\$ 4 million	Portion of real estate transfer tax; securities registration fees	Rehab, new construction of single- and multifamily units, and technical assistance to nonprofit housing development organizations	http://crd.neded.org/housing/nahtf/
Ohio	1991	\$ 25 million	Appropriations (from interest on various funds)	Predevelopment costs, rental assistance, home-buyer counseling and assistance, handicapped accessibility modification, rehab, home repair, and new construction	http://www.odod.state.oh.us/cdd/htf/default.htm

development, or business and industry, administer 18 others. A quasi-public board established for that purpose administers one housing and conservation fund.⁶

Staffing to administer statewide trust funds varies from 1 to 22 staff persons. Administration budgets among the 37 funds vary from only a few thousand dollars to nearly \$1.5 million annually.

Selected Trust Fund Profiles
Six state-administered affordable housing trust funds were examined for this brief.

Ohio

The Ohio Housing Trust Fund (OHTF) was established by the General Assembly following the voter-approved Constitutional Amendment for Housing in 1990, and initially received \$2.5 million annually in unclaimed funds from the Ohio Department of Commerce. Over 10 years,

appropriations for the fund have totaled \$126.5 million (from interest on the state's budget stabilization and general revenue funds, and interest on the balance in the housing trust fund itself), including \$50.5 million in the current biennium. Since 1993, there have been several failed attempts to increase the real estate transaction Recordation Fee to generate a dedicated revenue stream for the OHTF.

⁶ Ibid.

Ohio Housing Trust Fund dollars may be used for a full range of housing activities that serve primarily low-income families and individuals, including predevelopment costs, rental assistance, housing counseling, home-buyer assistance, handicapped accessibility modification, rehabilitation, home repair, and new construction. Since 1991, more than 83,200 families have received assistance through programs of the trust fund. More than 3,000 new housing units (homes and apartments) have been constructed, another 1,500 rental units have been rehabilitated, and more than 6,800 homes have been repaired or rehabilitated using OHTF funding. Fund managers estimate that every dollar the OHTF provides leverages an additional five dollars in private investments and federal resources.

The Ohio Department of Development administers the trust fund, advised by a 14-member committee representing various sectors of the housing and lending industry and local governments.^{7, 8}

Illinois

To support its Affordable Housing Trust Fund, the State of Illinois increased its real estate transfer tax from \$.50 to

\$1.00 per \$1,000 on the sale price of real property. Half of the revenue collected is deposited into the Affordable Housing Trust Fund, generating approximately \$20 to \$22 million per year.

The majority of funds are allocated to very low income households (up to 50 percent of area median income). The types of projects eligible for consideration include the acquisition and/or rehabilitation of existing housing, new construction, the adaptive reuse of nonresidential buildings, and special-needs housing for the mentally ill, developmentally disabled, physically handicapped, or single-parent families. Between 1989 and 1999, approximately \$119 million was generated from the real estate transfer tax to fund low- and very low income housing, and the trust fund provided support for 13,505 housing units. For every dollar the trust fund provides, it estimates more than \$5.50 is leveraged from other sources.

The Illinois Housing Development Authority and the Affordable Housing Advisory Commission administer the trust fund and review applications for funding. To ensure an equitable geographic distribution, trust fund resources are allocated around the state (to the Chicago metropolitan region, other metropolitan regions, and non-

metropolitan regions) according to a formula based on U.S. Census data.^{9, 10}

Minnesota

The Minnesota Housing Trust Fund is financed by the interest earned on real estate brokers' pooled interest-bearing trust accounts, which consist of earnest money deposits for real estate purchases. Interest accruing on revenue bond application fees, forfeited fees, and fees not returned have provided additional revenues. To supplement the fund, the legislature has also appropriated general funds; the total size of the Minnesota Housing Trust Fund is currently about \$2 million per year. (In comparison, funding requests totaled nearly \$39 million in 1998.)

The Housing Trust Fund provides zero-interest, deferred loans for the development, construction, acquisition, preservation, and rehabilitation of affordable housing for renters and homeowners. At least 75 percent of rental units must serve participants at or below 30 percent of area median income. All ownership units must serve households at or below 50 percent of the median. Since its inception, the fund has awarded \$12.7 million to more than 200 projects. More than 4,500 housing units

⁷ Ohio Housing Trust Fund. 2001. [http://www.odod.state.oh.us/cdd/htf/default.htm]

⁸ Brooks, op. cit.

⁹ Illinois Housing Development Authority, 2001.

[http://www.ihda.org/cd.htm]

¹⁰ Brooks, op. cit.

have been constructed, providing affordable housing for an estimated 7,600 Minnesota residents.

The Minnesota Housing Finance Agency (MHFA) administers the fund. An eight-member advisory task force consisting of realtors, lenders, nonprofit developers, low-income people, housing advocates, and builders assists the MHFA. The task force attempts to target funding to projects that: are creative or innovative and could serve as models for other projects; will provide long-term affordable housing; have strong local support; and contribute to a statewide distribution of funds.^{11, 12}

Missouri

The Missouri Housing Trust Fund collects revenue from a recording fee on all real estate documents. Annual funding levels have averaged about four million dollars in recent years.

The trust fund provides support for a variety of activities, including rental housing production, housing and related services for the homeless, and rental subsidies. All assisted families and individuals must have household incomes at or below 50 percent of the area median income; at least half of those assisted must have

household incomes no greater than 25 percent of the area median. At least 30 percent of funds must be allocated to nonprofit organizations.

Other criteria used to select proposals for funding include: geographical distribution, demonstrated need, the ability to leverage funds, the reasonableness of the development's costs and rents, and readiness of the applicant to proceed.

Programs that received funding in 1999 included emergency aid, home repair, operating support, rental assistance, homeless shelter and transitional housing construction and rehabilitation, and multifamily housing projects.

The Missouri Housing Development Commission (MHDC) administers this fund. The MHDC publishes a Notice of Fund Availability at least once a year and eligible interested parties submit applications in response to it.^{13, 14}

Nebraska

In 1997, the Nebraska legislature approved a real estate transfer tax increase, from \$1.50 to \$1.75 per \$1,000 value, and redirected one dollar of the tax from the general fund to the Nebraska Affordable Housing Trust Fund (NAHTF)

until 2003. In addition, certain fees paid for the registration of securities sold in the state are devoted to the fund. Together, over six years, the state expects these sources to generate \$24 million for the trust fund.

The Nebraska fund has three main areas of focus: rehabilitation of existing housing; development of new single- or multifamily units; and technical assistance, design, and financial services to nonprofit housing development organizations. Operating cost assistance for nonprofit organizations may be provided, up to 50 percent of total cost and not to exceed \$25,000. In 1998, assistance from the NAHTF, when leveraged with private investment, resulted in the development of a total of 714 units.

The Nebraska Department of Economic Development (DED) administers the NAHTF. The DED allocates the monies with the assistance of an interagency review committee that has representatives from the state departments of Health, Economic Development, Education, Social Services, and Public Institutions. Revenue to support the fund is collected by the counties and remitted to the Department of Revenue, which distributes it to the DED.^{15, 16}

¹¹ Minnesota Housing Finance Agency, 2001.

[<http://www.mhfa.state.mn.us>]

¹² Brooks, op. cit.

¹³ Missouri Housing Development Commission, 2001.

[<http://www.mhdc.com/programs/mhtf.html>]

¹⁴ Brooks, op. cit.

¹⁵ Nebraska Affordable Housing Trust Fund, 2001. [<http://crd.neded.org/housing/nahtf/>]

¹⁶ Brooks, op. cit.

Arizona

Since 1998, the Arizona Housing Trust Fund has received a percentage from the state's unclaimed property fund. The trust fund receives 55 percent of unclaimed deposits and interest on unexpended funds. The fund expects to receive approximately \$6 million annually from this source.

The Arizona Affordable Housing Trust Fund provides grants and loans to cities, towns, counties, local housing authorities, tribal housing organizations, and nonprofit organizations. Eligible projects include new construction, acquisition, and/or rehabilitation of housing to be used for homeownership, rental, transitional, or emergency shelter.

Ongoing assistance programs such as rehabilitation of housing occupied by low-income homeowners, rental subsidies, and operating costs for emergency or special-needs housing are also eligible for funding. Set-asides are available to provide funding for planning and predevelopment activities and home-buyer assistance programs.

Funded projects must serve households with incomes at or below 80 percent of the area median income and maintain affordability for at least 5 to 15

years. The fund is required to set aside funds (at least 20 percent of its total allocation) for rural projects, and to target assistance to households with children.

The Arizona Department of Commerce's Office of Housing and Infrastructure Development (HID) administers the fund, assisted by five other housing assistance programs. Within the HID structure, the fund has four full-time staff members: a housing program manager, a housing trust fund manager, a housing compliance officer, and a housing trust fund contract specialist. HID also has a Housing Commission that functions in an advisory capacity.¹⁷

Conclusion

One obvious factor in determining the maximum production levels of affordable housing for low-income households is the availability of ready capital for acquisition, construction, rehabilitation, and related services.¹⁸ In response, three-quarters of the states choose to commit government resources to the affordable housing funds.

¹⁷ Arizona Department of Commerce, 2001. [<http://www.commerce.state.az.us/housing/ahtf1.shtml>]

¹⁸ Several other key factors that warrant attention include: organizations' capacity and commitment to efficiently produce low-cost housing units; a policy environment that encourages or discourages such development; and market forces.